

THE FRIENDS AND FOUNDATION  
OF THE SAN FRANCISCO  
PUBLIC LIBRARY

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FINANCIAL STATEMENTS

JUNE 30, 2012

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## INDEPENDENT AUDITORS' REPORT

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To the Board of Directors  
The Friends and Foundation of the San Francisco Public Library

We have audited the accompanying Statement of Financial Position of The Friends and Foundation of the San Francisco Public Library (a nonprofit organization) as of June 30, 2012 and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of The Friends and Foundation of the San Francisco Public Library's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from The Friends and Foundation of the San Francisco Public Library's June 30, 2011 financial statements, and was audited by other auditors whose report dated October 25, 2011, expressed an unqualified opinion on those Statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Friends and Foundation of the San Francisco Public Library's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Friends and Foundation of the San Francisco Public Library as of June 30, 2012 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Harrington Group*

San Francisco, California  
November 30, 2012

**THE FRIENDS AND FOUNDATION OF THE  
SAN FRANCISCO PUBLIC LIBRARY**

STATEMENT OF FINANCIAL POSITION

June 30, 2012

With comparative totals at June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012	2011
<b>Assets</b>					
Cash and cash equivalents (Note 2)	\$ 67,611	\$ -	\$ -	\$ 67,611	\$ 208,696
Other receivable	7,651			7,651	10,052
Bequest receivable	32,230			32,230	30,696
Pledges receivable - net (Note 3)		1,914,605		1,914,605	744,125
Prepaid expenses	56,800			56,800	91,482
Investments (Note 4)	3,510,323	740,286	3,603,833	7,854,442	8,642,671
Property and equipment (Note 6)	199,216			199,216	562,416
<b>Total assets</b>	<b>\$ 3,873,831</b>	<b>\$ 2,654,891</b>	<b>\$ 3,603,833</b>	<b>\$ 10,132,555</b>	<b>\$ 10,290,138</b>
<b>Liabilities and net assets</b>					
<b>Liabilities</b>					
Accounts payable	\$ 235,511	\$ -	\$ -	\$ 235,511	\$ 235,367
Accrued vacation payable	78,437			78,437	120,320
Note payable (Note 7)	1,000,000			1,000,000	1,000,000
<b>Total liabilities</b>	<b>1,313,948</b>	<b>-</b>	<b>-</b>	<b>1,313,948</b>	<b>1,355,687</b>
<b>Net assets</b>					
Unrestricted	2,559,883			2,559,883	3,336,092
Temporarily restricted (Note 9)		2,654,891		2,654,891	1,994,526
Permanently restricted (Note 10)			3,603,833	3,603,833	3,603,833
<b>Total net assets</b>	<b>2,559,883</b>	<b>2,654,891</b>	<b>3,603,833</b>	<b>8,818,607</b>	<b>8,934,451</b>
<b>Total liabilities and net assets</b>	<b>\$ 3,873,831</b>	<b>\$ 2,654,891</b>	<b>\$ 3,603,833</b>	<b>\$ 10,132,555</b>	<b>\$ 10,290,138</b>

The accompanying notes are an integral part of these financial statements.

**THE FRIENDS AND FOUNDATION OF THE  
SAN FRANCISCO PUBLIC LIBRARY**

STATEMENT OF ACTIVITIES

For the year ended June 30, 2012

With comparative totals for the year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012</u>	<u>2011</u>
<b>Revenue and support</b>					
Contributions	\$ 1,302,984	\$ 1,890,723	\$ -	\$ 3,193,707	\$ 2,294,338
Book sales net of expenses of \$58,581	1,308,161			1,308,161	1,216,192
In-kind donations (Note 2)	726,535			726,535	809,769
Investment income	311,471			311,471	473,891
Bequests	114,297	5,615		119,912	141,550
Café sales net of expense of \$73,216	85,481			85,481	78,566
Government contracts and grants	54,567			54,567	-
Other income	874			874	2,135
(Loss) on disposal of property and equipment	(335,857)			(335,857)	-
Net assets released from program restrictions	1,235,973	(1,235,973)		-	-
	<u>4,804,486</u>	<u>660,365</u>	<u>-</u>	<u>5,464,851</u>	<u>5,016,441</u>
<b>Expenses</b>					
Program services	4,634,074			4,634,074	6,180,262
Support services	946,621			946,621	1,059,101
	<u>5,580,695</u>	<u>-</u>	<u>-</u>	<u>5,580,695</u>	<u>7,239,363</u>
<b>Change in net assets</b>	(776,209)	660,365	-	(115,844)	(2,222,922)
<b>Net assets, beginning of year</b>	<u>3,336,092</u>	<u>1,994,526</u>	<u>3,603,833</u>	<u>8,934,451</u>	<u>11,157,373</u>
<b>Net assets, end of year</b>	<u>\$ 2,559,883</u>	<u>\$ 2,654,891</u>	<u>\$ 3,603,833</u>	<u>\$ 8,818,607</u>	<u>\$ 8,934,451</u>

The accompanying notes are an integral part of these financial statements.

THE FRIENDS AND FOUNDATION OF THE  
SAN FRANCISCO PUBLIC LIBRARY

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2012  
With comparative totals for the year ended June 30, 2011

	Program Services				Support Services				Total	
	Outreach Series	Volunteers	Library Support	Book Distribution	Total Program Services	Management and General	Cafe	Fundraising	Total Support Services	Total Expenses
Staff compensation	\$ 216,974	\$ 87,363	\$ 320,301	\$ 457,728	\$ 1,082,366	\$ 84,271	\$ 62,061	\$ 241,583	\$ 387,915	\$ 1,470,281
Taxes and benefits	58,678	39,952	77,067	155,273	350,970	41,095	11,376	32,131	104,602	455,572
Total personnel costs	275,652	127,315	397,368	613,001	1,413,336	125,366	73,437	293,714	492,517	1,905,853
Direct project grants			1,509,854		1,509,854					1,509,854
In-kind expenses	147,118	62,242	131,274	269,339	609,973	28,291		88,271	116,562	726,535
Rent	24,834	10,307	22,160	308,228	365,729	4,776	9,060	14,900	28,736	394,465
Contract services	63,438	16,636	35,086	136,847	254,027	7,562	14,504	81,587	103,653	357,680
Supplies	5,891	9,897	3,233	55,537	74,558	698	4,503	36,746	41,947	116,505
Depreciation	4,109	1,738	3,667	38,302	47,816	790	19,005	2,465	22,260	70,076
Professional consulting fees	15,369	4,002	2,114	4,442	25,927	456		31,739	32,195	58,122
Bank charges	3,519	1,489	3,140	42,885	51,033	677	2,332	2,111	5,120	56,153
Postage and delivery	360	197	289	27,114	27,960	62		23,936	23,998	51,958
Repairs and maintenance	4,236	1,852	3,768	33,999	43,745	812	2,828	2,810	6,450	50,195
Rentals - equipment	947	401	845	43,473	45,666	182	1,918	568	2,668	48,334
Printing	2,459	674	1,422	12,799	17,354	306		25,694	26,000	43,354
Accounting, audit and legal	8,100	3,427	7,227	14,829	33,583	1,538		4,860	6,418	40,001
Telephone	2,698	1,055	2,226	21,043	27,022	480		3,183	3,663	30,685
Utilities	2,573	1,088	2,296	18,656	24,613	495		2,025	3,790	29,897
Travel	8,198	225	454	10,758	19,635	98		2,672	2,770	22,405
Miscellaneous										19,863
Networking - staff development	1,542	653	1,376	2,824	6,395	297		13,918	14,215	19,263
Interest expense	4,117	1,742	3,674	7,538	17,071	792		2,470	3,262	20,333
Insurance	2,094	886	1,869	5,787	10,636	403		5,640	7,300	20,278
Payroll processing	1,322	539	1,179	2,420	5,480	234		793	1,047	17,371
Dues and subscriptions	167	71	149	995	1,382	32		1,672	1,704	5,086
Advertising	138	58	123	507	826	36		158	259	1,085
Licenses and fees	109	46	98	200	453	21		66	87	540
Advocacy										95
<b>Total 2012 functional expenses</b>	<b>\$ 789,829</b>	<b>\$ 249,844</b>	<b>\$ 2,134,891</b>	<b>\$ 1,673,433</b>	<b>\$ 4,634,074</b>	<b>\$ 174,434</b>	<b>\$ 134,572</b>	<b>\$ 637,615</b>	<b>\$ 946,621</b>	<b>\$ 5,580,695</b>
<b>Total 2011 functional expenses</b>	<b>\$ 789,829</b>	<b>\$ 249,844</b>	<b>\$ 3,514,314</b>	<b>\$ 1,626,275</b>	<b>\$ 6,180,262</b>	<b>\$ 161,904</b>	<b>\$ 185,468</b>	<b>\$ 711,729</b>	<b>\$ 1,059,101</b>	<b>\$ 7,239,363</b>

The accompanying notes are an integral part of these financial statements.

**THE FRIENDS AND FOUNDATION OF THE  
SAN FRANCISCO PUBLIC LIBRARY**

STATEMENT OF CASH FLOWS

For the year ended June 30, 2012

With comparative totals for the year ended June 30, 2011

	2012	2011
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (115,844)	\$ (2,222,922)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation	70,076	87,182
Loss on disposal of property and equipment	335,857	-
Loss (gain) on investments	11,951	(1,250)
Reinvested interest and dividends	(323,288)	(449,760)
Change in allowance for doubtful account	50,871	(80,641)
Change in discount on pledges	50,420	11,889
Changes in operating assets and liabilities:		
Decrease in other receivable	2,401	30
(Increase) in bequest receivable	(1,534)	(1,462)
(Increase) decrease in pledges receivable	(1,271,771)	306,106
Decrease in prepaid expenses	34,682	2,995
(Decrease) in grants payable	-	(335,002)
Increase in accounts payable	144	67,142
(Decrease) in accrued vacation payable	(41,883)	(2,768)
<b>Net cash (used) by operating activities</b>	<b>(1,197,918)</b>	<b>(2,618,461)</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(42,733)	(60,387)
Proceeds from sale of investments	6,391,490	6,091,408
Purchase of investments	(5,291,924)	(3,515,864)
<b>Net cash provided by investing activities</b>	<b>1,056,833</b>	<b>2,515,157</b>
<b>Net (decrease) in cash and cash equivalents</b>	<b>(141,085)</b>	<b>(103,304)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>208,696</b>	<b>312,000</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 67,611</b>	<b>\$ 208,696</b>
<b>Supplemental disclosure:</b>		
Operating activities refunded interest paid of	<b>\$ 20,333</b>	<b>\$ 20,278</b>

The accompanying notes are an integral part of these financial statements.

# THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

## NOTES TO FINANCIAL STATEMENTS

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### 1. **Organization**

Founded in 1961, The Friends and Foundation of the San Francisco Public Library ("Friends") is a member-supported, nonprofit organization that advocates, fundraises, and provides critical support for the San Francisco Public Library ("Library"). Friends is dedicated to creating, stewarding, and supporting one of the best public library systems in the country. Friends believes in free and equal access to information for all and is committed to raising the standard of excellence of our libraries by funding programs, services, furniture, fixtures, equipment and special collections beyond what is allocated in the City of San Francisco's budget. During its 50 years in existence, Friends has raised over \$70 million in private philanthropy, with nearly half of it, \$32 million, for the new Main Library's furniture, fixtures and equipment in 1996. Friends also administers endowment funds that provide ongoing support to the library. A summary of its programs is as follows:

#### **Library Support**

Friends' has an annual grant making program that funds various library programs and activities. As a community foundation, Friends awards grants that sponsor instructive, innovative and informative free programs and services that are open to everyone across San Francisco such as One City One Book, Tricycle Music Festival, and the publication of *At the Public Library*, a free newsletter of activities at the Main library and all the branches. These grants respond to a variety of community needs; from educational programs for children, youth, and adults; to unique neighborhood projects at the branches; to museum-quality literary arts exhibits both in the Main Library and branches. Grants also support library staff development and other library projects, such as the Learning Differences Center, Stegner Environmental Center, the James C. Hormel Gay and Lesbian Center, the Chinese and African American Centers. In addition, Friends funds various innovation projects to meet 21<sup>st</sup> Century technological demands such as the laptop lending program, Webcams for Deaf Services, robotics courses in design and science and technology literacy program kits for elementary aged children.

#### **Fundraising and the Neighborhood Library Capital Campaign**

Friends' financial support of the library comes from over 6,000 member households, a generous donor base, and a unique and successful used book sale model that includes two bookstores and frequent book sales. As a community foundation, Friends unites a family of supporters who share a common vision of excellence for the San Francisco Public Library and provides those supporters with a variety of opportunities to participate as donors, volunteers and advocates.

While past fundraising successes included \$32 million for the new Main Library, San Francisco's libraries have entered a new era, one that embraces cultural competency and 21<sup>st</sup> century technology. The San Francisco Public Library's Branch Library Improvement Project is renovating seventeen neighborhood libraries and moving seven branches from small, leased spaces to larger, new city-owned buildings thanks to a bond measure spearheaded by the Friends and passed overwhelmingly by voters in 2000. Friends' Neighborhood Library Capital Campaign ("NLC") is raising up to \$16 million, to equip and furnish these twenty-four branches. Our efforts will strengthen communities; promote access to knowledge, support education, and make San Francisco a better place for all of us to live. So far, twenty-two of the twenty-four branches have been completed. The Bayview-Hunter's Point branch will be completed in 2013 and the North Beach branch will be completed in 2014.



# THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

## NOTES TO FINANCIAL STATEMENTS

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### 1. **Organization**, continued

#### **Advocacy**

Friends continues the tradition of active and vocal support to ensure excellence in library services for all users. Friends' long and successful track record includes its critical role in passing four ballot measures over the last 20 years. Through its advocacy efforts, Friends helped pass a \$106 million bond measure to build and refurbish 24 neighborhood branch libraries city-wide (2000, Prop A); championing the Library Preservation Fund, ensuring increased library hours, services and budget (1994, Prop E); spearheading the legislative campaign to build a \$109.5 million new Main Library (1988, Prop A) and securing over \$9.7 million in state funding. Most recently, Friends helped pass a measure that will bring in over \$1.2 billion to the library by renewing the Library Preservation Fund (2007, Prop D). In the future, we will continue to work with elected officials, community groups, and library administration to ensure a premier library system for San Francisco.

#### **Programming**

Through ongoing efforts to support the library, Friends connects readers with books and authors. Each year, Friends receives over 1,000,000 donated books, which it in turn resells to the public through two bookstores, online sales and a number of book sales (including the largest book sale on the west coast). The San Francisco Public Library also selectively acquires books from donated books to enhance the Library's collections. Last year, a copy of Dante's Inferno was donated and placed into the Library's rare book collection. All proceeds benefit the Library and many books are also donated to schools and other non-profit organizations. In addition, Friends hosts special events for its members with well-known authors, frequently hosts readings to highlight new and established writers and produces the bi-annual San Francisco International Poetry Festival. In addition, Friends hosts quarterly after hours event for its members in a branch library with a special program focus for each event.

### 2. **Summary of Significant Accounting Policies**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

#### **Basis of Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting.

#### **Accounting**

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Friends are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

THE FRIENDS AND FOUNDATION OF THE  
SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

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2. **Summary of Significant Accounting Policies, continued**

**Unrestricted.** These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

**Temporarily Restricted.** Friends reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions.

**Permanently Restricted.** These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit Friends to expend all of the income (or other economic benefits) derived from the donated assets.

**Cash and Cash Equivalents**

Friends has defined cash and cash equivalents as cash in banks and certificates of deposits with an original maturity of three months or less.

**Contributions and Pledges Receivable**

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

**Investments**

Friends value its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain (loss) on investments. Short-term, highly liquid money market deposits that are not used for operations are treated as investments.

**Fair Value Measurements**

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

continued

THE FRIENDS AND FOUNDATION OF THE  
SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

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2. **Summary of Significant Accounting Policies, continued**

Friends is required to measure the following assets and revenue at fair value: non-cash contributions and certain investments. The specific techniques used to measure fair value for these financial statement elements are described in the notes below that relate to each element.

**Concentration of Credit Risks**

Friends places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. Friends has not incurred losses related to these investments or cash equivalents and transfers funds to other institutions on a regular basis to manage this risk.

Friend holds investments in the form of short-term money market investments, mutual funds, bonds and common stocks of publicly held companies. The Board of Directors routinely reviews market values of such investments and credit ratings of bond issuers.

**Property and Equipment**

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to one thousand dollars and the useful life is greater than one year.

**Donated Materials and Services**

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received.

A number of unpaid volunteers have made significant contributions of their time to Friends. The value of these services in the Book Distribution program is reflected in these statements as \$726,535.

**Income Taxes**

Friends is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by Friends in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. Friends' returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

**THE FRIENDS AND FOUNDATION OF THE  
SAN FRANCISCO PUBLIC LIBRARY**

NOTES TO FINANCIAL STATEMENTS

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**2. Summary of Significant Accounting Policies, continued**

**Functional Allocation of Expenses**

Costs of providing Friends' programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. Friends uses full time employee equivalents to allocate indirect costs.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

**Comparative Totals**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Friends' financial statements for the year ended June 30, 2011 from which the summarized information was derived.

**Reclassification**

Certain amounts from the June 30, 2011 financial statements have been reclassified to conform to the June 30, 2012 presentation.

**Subsequent Events**

Management has evaluated subsequent events through November 30, 2012, the date which the financial statements were available.

**3. Pledges Receivable**

Pledges receivable are recorded as support when pledged unless designated otherwise. An allowance for doubtful accounts has been established for uncollectible pledges. All pledges are valued at their estimated fair value at June 30, 2012, and a discount rate of 2.35% has been used to calculate the present value of pledges receivable. Total amount of pledges receivable at June 30, 2012 of \$1,914,605 is expected to be collected as follows:

continued

THE FRIENDS AND FOUNDATION OF THE  
SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

3. **Pledges Receivable**, continued

<u>Year ended June 30,</u>	
2013	\$ 757,084
2014	510,423
2015	408,208
2016	389,900
2017	12,000
Thereafter	<u>28,000</u>
	2,105,615
Less: Allowance for doubtful pledges receivable	(84,223)
Unamortized discount on pledges receivable	<u>(106,787)</u>
	<u>\$1,914,605</u>

4. **Investments**

Investments at June 30, 2012 consist of the following:

Mutual funds	\$5,178,292
Common stocks	1,413,602
Bond funds	1,237,036
Money market	<u>25,512</u>
	<u>\$7,854,442</u>

Changes in investments for the fiscal year ended June 30, 2012 are as follows:

Investments, beginning of year	\$ 8,642,671
Interest and dividends	323,288
Loss on investments	(11,951)
Purchase of investments	5,291,924
Sale of investments	<u>(6,391,490)</u>
Investments, end of year	<u>\$ 7,854,442</u>

5. **Fair Value Measurements**

The table below presents the balances of assets measured at fair value at June 30, 2012 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$5,178,292	\$ -	\$ -	\$5,178,292
Common stocks	1,413,602			1,413,602
Bond funds	<u>1,237,036</u>			<u>1,237,036</u>
	<u>\$7,828,930</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$7,828,930</u>

The fair values of mutual funds, common stocks and bond funds have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

continued

THE FRIENDS AND FOUNDATION OF THE  
SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

5. Fair Value Measurements, continued

The table below present transactions measured at fair value on a non-recurring basis during the year ended June 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed services	\$ -	\$726,535	\$ -	\$726,535
	\$ -	\$726,535	\$ -	\$726,535

The fair value of contributed services has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

6. Property and Equipment

Property and equipment at June 30, 2012 consist of the following:

Leasehold improvements	\$ 409,713
Furniture and equipment	214,410
Computers and software	<u>189,908</u>
	814,031
Less: accumulated depreciation	<u>(614,815)</u>
	<u>\$ 199,216</u>

7. Note Payable

In March 2009, Friends entered into a \$1,000,000 loan agreement with Wells Fargo Bank. The loan has an initial maturity date of March 2012, but may be extended for an additional twelve month period. Terms of the loan agreement call for quarterly interest payments based upon a two percent annual interest rate. Interest in the option period will be based upon the greater of two percent or the Treasury note less three and a half percent. The principal loan balance was due in March 2012, except that if the note is extended for an additional twelve month period, the principal shall be repaid in four quarterly installments in the option period. The note has been extended and the principal loan balance is due in March 2013, and quarterly installments are being made.

8. Commitments and Contingencies

Obligations Under Operating Leases

Friends leases various facilities under operating leases with various terms. Future minimum payments, by year and in aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

continued

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NOTES TO FINANCIAL STATEMENTS

8. Commitments and Contingencies, continued

<u>Year ended June 30,</u>	
2013	\$ 174,655
2014	179,895
2015	185,291
2016	190,850
2017	159,913
Thereafter	<u>405,633</u>
	<u>\$1,296,237</u>

Rental expense under operating leases for the year ended June 30, 2012 was \$394,465.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2012 consist of the following:

Capital projects	\$ 721,652
Affinity groups and centers	506,529
Branch library support	491,592
Project Read	226,157
Children's programming	203,250
Dannenberg collection	158,562
Programs and exhibitions	9,972
Other	<u>337,177</u>
	<u>\$2,654,891</u>

10. Permanently Restricted Net Assets

Permanently restricted net assets represent contributions which the donor has stipulated that the principal is to be kept intact in perpetuity and only the interest and dividends therefrom may be expended for unrestricted purposes. At June 30, 2012, permanently restricted net assets consist of the following:

The Mel Swig Endowment	\$1,462,589
Phyllis C. Wattis Fund for the Main Library	1,000,000
The James C. Hormel Endowment	861,076
The Fritz and Lilian Dannenberg Library Fund	255,168
The Schmulowitz Collection of Wit and Humor Endowment	<u>25,000</u>
	<u>\$3,603,833</u>

11. Endowment Funds

Friends' endowment consists of five funds established for a variety of purposes and includes donor-restricted funds. Net assets associated with this endowment are classified and reported based on the existence or absence of donor-imposed restrictions.

continued

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## NOTES TO FINANCIAL STATEMENTS

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### 11. Endowment Funds, continued

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Friends classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Friends in a manner consistent with the standard of prudence prescribed by UPMIFA.

#### *Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or Board of Trustees requires Friends to retain as a fund of perpetual duration. The James C. Hormel Endowment and The Fritz and Lilian Dannenberg Library Fund had deficiencies of this nature as of June 30, 2012.

#### *Return Objectives and Risk Parameters*

Friends has adopted investment and spending policies for endowment assets that attempt to preserve the purchasing power of the Endowment Fund and at the same time provide a regular and growing distribution of funds for the use of Friends, consistent with the terms of the Endowment Fund Distribution Policy and the terms governing each of the individual endowment funds. A balanced approach is to be taken between risk, preservation of capital, income and growth.

#### *Strategies Employed for Achieving Objectives*

To satisfy its investment policy objectives, Friends relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) through equity-based investments and current yield (interest and dividends) through fixed income investments. Friends targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its return objectives within prudent risk constraints.

#### *Spending Policy and How the Investment Objectives Relate to Spending Policy*

Friends has a policy of appropriating for distribution each year an amount of five percent of its investment portfolio's average asset fair market value over the prior three years. The Board of Directors may request all, a portion, or none of the appropriation be distributed in accordance with the endowment fund's purpose as defined by the endowment agreement or applicable board resolution. Any portion of the distribution not appropriated by the Board shall be kept in the endowment fund, be governed by the endowment investment policy, and be available for future distribution in accordance with the distribution policy.

continued



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NOTES TO FINANCIAL STATEMENTS

11. Endowment Funds, continued

Endowment net assets composition by type of fund as of June 30, 2012 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
The Mel Swig Endowment Fund	\$ 4,692	\$222,281	\$1,462,589	\$1,689,562
Phyllis C. Wattis Fund for the Main Library	7,779	165,512	1,000,000	1,173,291
The James C. Hormel Endowment Fund	(9,930)	306,668	861,076	1,157,814
The Fritz and Lilian Dannenberg Library Fund	(31,195)	158,562	255,168	382,535
The Schmulowitz Collection of Wit and Humor Endowment	—	1,319	25,000	26,319
Total funds	<u>\$(28,654)</u>	<u>\$854,342</u>	<u>\$3,603,833</u>	<u>\$4,429,521</u>

Friends has elected to maintain permanently restricted net assets at its original corpus, accordingly on an annual basis any deficit is funded from unrestricted net assets.

Changes in endowment net assets for the fiscal years ended June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Endowment net assets, beginning of year	(54,395)	\$677,232	\$3,603,833	\$4,226,670
Interest/dividend income		263,636		263,636
Appropriation of endowment funds for expenditures	27,535	(27,535)		-
Net appreciation/ (depreciation)	(1,794)	(58,991)	—	(60,785)
Endowment net assets, end of year	<u>\$(28,654)</u>	<u>\$854,342</u>	<u>\$3,603,833</u>	<u>\$4,429,521</u>

12. Employee Benefit Plan

Friends has a deferred compensation plan available to all employees who have completed one year and one thousand or more hours of service, as defined. Employees may contribute any percent of their annual compensation provided it does not exceed maximum amounts as permitted by law. Friends made discretionary matching contributions equal to three percent of eligible compensation. Plan contributions shall be fully vested and not forfeitable when such plan contributions are made. Employer contributions under this plan for the year ended June 30, 2012 were \$31,305.